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THE SECRETARY OF STATE

WASHINGTON

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April 3, 1984

MEMORANDUM FOR: THE PRESIDENT
FROM: George P. Shultz *GPS*
SUBJECT: Your China Trip: Setting and Issues

I. THE SETTING

Your visit to China will be the first by a U.S. President since the normalization of diplomatic relations in 1979 and the first since President Ford's trip in 1975. It marks the opening of a more mature stage of our relationship, a stage marked by mutual recognition of both our common interests and our differences.

Too often in the past we alternated between euphoria and depression, either minimizing our differences and thinking that China was about to become a close ally or, alternatively, exaggerating differences when they did arise and fearing the whole relationship might be in jeopardy. The task of your Administration has been to put U.S. relations with the PRC on a stable and realistic long-term course, one that recognizes the great importance and potential of this relationship but that does not minimize the differences and problems between us.

Our differences arise not merely over Taiwan but also from the profound differences between our political and economic systems. These differences can be managed because both countries have a great interest in a positive relationship. However, maintaining and improving our relations must be based on mutual efforts. It cannot be purchased by U.S. concessions on Taiwan. We have a great stake in this relationship. But so do the Chinese, both because of what the United States can do to assist their modernization efforts and because of the dangers that Soviet expansionism poses.

Your seven hours of talks in Beijing with China's four top leaders -- political strongman Deng Xiaoping, Chief of State Li Xiannian, Communist Party General Secretary Hu Yaobang, and Premier Zhao -- will reinforce the themes developed in our discussions with the Chinese over the last eighteen months, themes which were explicitly underscored in your own meetings with Premier Zhao in mid-January. Both your private statements

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to Chinese leaders and your two scheduled major addresses will convey that the United States:

- regards China as a friendly, non-allied country and wishes to advance our ties on that basis;
- stands ready, willing and able to support China's modernization efforts, particularly through our private sector;
- attaches continued importance to coordinating efforts to resist the Soviets and their proxies, as in Afghanistan and Kampuchea, or to reduce tensions, as in Korea; and
- will abide by our commitments vis-a-vis Taiwan but will expect patience in handling this complex issue.

The Chinese have made it abundantly clear that they want your visit to be a success, as Premier Zhao said to Don Regan two weeks ago. They have been accommodating on logistical arrangements for your visit; they yielded ground on a bilateral tax treaty which you will sign; they geared up, on Premier Zhao's instructions, to try to conclude a bilateral investment treaty; they avoided a serious civil aviation confrontation by issuing a temporary authorization to Northwest Airlines to begin passenger service to China; they conducted businesslike consultations with us on textiles, the most acrimonious of all our bilateral economic issues; and, during recent working-level talks on possible U.S. military sales, they have displayed renewed though cautious interest in the strategic dimension of our relations.

Beijing pushed hard for your visit and wants several things from it. First, China's reformist leadership -- Deng, Hu and Zhao in particular -- has a personal and political stake in presenting to doubting opponents the appearance and reality of a thriving bilateral relationship with the U.S.

Second, having apparently concluded both that they had earlier misread your China policy -- and also that you are likely to win reelection -- they want to solidify a personal relationship with you.

Third, they will use the favorable atmosphere to press you to: note Chinese concerns on Taiwan (especially over arms sales and over manifestations of stronger support in Taiwan and in the U. S. Congress for Taiwan "independence" formulas); ease further the restrictions you have already relaxed on exports of advanced technology; pledge support for Chinese access to concessional U.S. financing; ease restrictions on Chinese textiles; and, perhaps, intervene to break the impasse in our nuclear and investment negotiations. Foreign Minister Wu recently cited these issues, along with

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amending the Foreign Assistance Act and renewing the Maritime Agreement, as "issues of importance" to China.

Finally, the Chinese will want to use your visit to gain leverage over the Soviets but also to promote China's coveted image of a developing nation that pursues an independent foreign policy. China's rhetoric stresses this "independent" stance, even at times linking the U.S. and Soviets as "hegemonist" powers. But despite recent efforts to ease Sino-Soviet tensions, Beijing clearly sees the USSR as the principal threat to its security and sees the need for good relations with us to counter that threat. Moreover, the Chinese know that only the U.S. and the West can provide the high technology, advanced training, investment capital, and managerial expertise that are needed for their modernization efforts.

II. ISSUES

1. Taiwan. The Chinese have muted their public criticisms of us, and let pass with minimum complaint our 1983 arms sales. But Zhao pressed you in January on the Taiwan Relations Act and expressed concern over growing support in the U.S. for various formulas favoring Taiwan independence. Deng has aired a "confederal" scheme to resolve the Taiwan question which he may seek to draw you into in your Beijing discussions. In response, your best course of action is to reaffirm our consistency with past commitments; the need now for the Chinese to resolve this issue peacefully between themselves and not by coming to us; and the attendant need for patience and confidence-building.

2. Korea. The Chinese will anticipate a continuation of your dialogue with Zhao in January on ways we might work in tandem to reduce tension on the Korean Peninsula. We have recently sought again to explore Chinese willingness and ability to be helpful -- either as direct participants or "from the sidelines" -- should multilateral talks get underway. The Chinese did not respond, and have displayed little inclination or ability to involve themselves in multilateral discussions at this juncture. We should at minimum reaffirm our interest in creating the conditions for stability on the Peninsula and remind the Chinese that our presence in South Korea provides stability in the face of North Korean threats that serves their interests as well.

3. Concessional financing. Premier Zhao has asked for U.S. concessional loans for major power projects, including nuclear plants. Don Regan told him in March that although we are

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seeking to remove the legislative prohibition on aid to China, we have no bilateral aid program planned and China would have to rely on the World Bank and private sources.

4. Discriminatory measures. Along with the aid prohibition, China's leaders have criticised the lack of preferential tariffs (GSP), annual review of most favored nation status (under the Jackson Vanik amendment), COCOM controls on technology, textile restrictions, dumping and countervailing duty petitions, and the court suit for repayment of Huguang railway bonds. We see these as the result of security, political, or economic factors which do not reflect any "discrimination" against China, and we have no plans or latitude to change these policies.

5. Grain Trade. You will want to make clear that China must meet its commitment under our Long Term Grain Agreement to purchase and ship 12 million tons of U.S. grain by the end of 1984. The Chinese failed to fulfill their 1983 commitment on time, and our data on shipments indicate the Chinese may fall short again this year. Fulfillment of the commitment affects a major part of U.S.-China trade and its fulfillment is important for the credibility of China's other past or future commitments.

6. Export Controls. Chinese leaders appreciate your liberalization of export controls last year, but will question its implementation and complain that China is the only friendly country whose exports are reviewed by COCOM. The statistics on licensing and the new technical levels of exports show that the policy is being successfully implemented, although we are still making improvements. We do not believe that there is the necessary consensus among our allies to drop China from COCOM nor do we believe that this course is advisable from the standpoint of security.

7. Asian Development Bank. Since November 1982, China has been talking to the U.S., Japan, and the President of the ADB about membership. China does not seek to expel Taiwan from the ADB, but does seek a change to "associate member" status for Taiwan. This would require modification of the ADB charter, which Bank members oppose. Moreover, resolutions by Congress have called for Taiwan to retain full membership. We have told the Chinese, most recently during the Regan visit, that they should work out arrangements acceptable to all parties with the Bank President.

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